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Bartering Our Farm Surpluses

The EC Challenge page 10

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PERSPECTIVES

The U.S. economy remains a key issue in the demand picture for next year and beyond, not only for livestock and feed crops, but for other farm commodities as well. Record feed grain and soybean harvests are now in progress, while livestock producers are reluctant to expand output, even with higher animal prices and lower feed costs.

On the positive side are the financial indicators: a sharp cut in the inflation rate (about 6% this year, down from 13% in 1980, 10% in 1981); the downturn in interest rates (prime rate fell from 16% in June to 12%-13% in Oct.); and recent rallies in stock and bond markets. Also, consumers paid off some debts and boosted their savings rate this summer, setting the groundwork for increased spending when confidence returns. But many economic indicators remain negative: weak GNP, high idle plant capacity, low investment in new plants and equipment, and high unemployment. The bottom line: weak recovery from the current recession, probably within the next 3 to 6 months.

Exports are the other side of the demand picture. Volume should rise in the year ahead, especially for feed grains and oilseeds. But low commodity prices dull the outlook for export earnings, which totaled an estimated $39.1 billion in fiscal 1982--the lowest since 1979. With prices so low, why isn't volume soaring? Among other reasons, the strong U.S. dollar continues to raise prices foreign buyers must pay for U.S. products. More important, many customers are in far worse economic shape than we are and just can't afford a buying spree.

Recent export initiatives should help some. Under the 3-year, blended-credit export plan, $500 million has been allocated for fiscal 1983 to provide a mix of credit guarantees (for commercial financing) and interest-free USDA credits. The focus is on surplus U.S. commodities and developing-country markets, especially new customers or those returning to U.S. ports. Trade teams are out visiting potential buyers. Other export strategies are still under study, including subsidies and barter plans.

How are U.S. farmers holding up financially? A third may be up against borrowing limits, but 95% are managing well enough to continue to qualify for credit. So goes the opinion of farm bankers surveyed by the American Bankers' Association. Bankers expect about 4.4% of farm customers to have their financing discontinued in the year ending next June, up from 3.3% in the previous year. Problems are reported to be most severe in the South.

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Bartering Our Farm Surpluses

Before money, there was barter. With some modern twists, the age-old practice of trading one product for another is getting fresh attention from analysts and policymakers concerned about the mounting U.S. surplus of farm commodities.

Barter is being considered as a possible trade tool to help reduce U.S. farm stocks, expand agricultural exports, and obtain needed strategic materials such as metals, metallic ores, and oil from foreign suppliers. In each of these areas, barter could probably play only a limited role, so the key question is whether the potential benefits would justify efforts to increase our barter trade.

As classically defined, barter is an agreement to exchange goods or services without the use of money. In modern practice, however, the relative values of the bartered products are often measured in monetary terms based on world market prices in international currencies.

The monetary values help determine the amounts to be traded, even though premiums or discounts may be applied. Cash can also be part of a barter transaction.

Barter-type arrangements come in a variety of forms and go under a variety of names. One common form—parallel contracts linking two exchange obligations—is called counter-trade, but the term is frequently used interchangeably with barter.

Although the official USDA barter program was suspended in 1973, the United States recently agreed to exchange dairy products, metals, and cash with Jamaica in return for bauxite (used to produce aluminum) for the U.S. stockpile of strategic minerals. If revived, an active barter program could provide a way to expand U.S. trade with other nations that face serious financial problems related, in many cases, to the current worldwide recession.

Reservations aside, barter would almost certainly offer some additional trade opportunities.

Those who support the idea point out that barter is not intended to displace commercial trade. In fact, they argue that such arrangements may help promote future cash trade in the same way that U.S. food aid and barter programs of the past helped develop new markets for U.S. goods as once-needy countries became more affluent.

Opponents, however, are concerned about the costs and additional bureaucracy that a barter program may entail. They also note that such a program could not guarantee U.S. access to strategic materials, nor would it likely have a major impact in reducing U.S. farm stocks.

The United States makes limited use of barter because commercial trade channels have proved more efficient, and because U.S. policy for many years has emphasized "free trade" with minimum government interference. Since most barter agreements are on a government-to-government basis, private traders sometimes object to greater government involvement in trade.

Why the Appeal?

Despite the reservations about barter, it would almost certainly offer some additional trade opportunities for the United States. As much as 25–30 percent of the overall value of world trade involves barter, based on recent estimates. Although comparable figures aren't available for agricultural trade, barter is very popular with many nations.

Developing countries plus the USSR, China, and Eastern Europe appear to hold the greatest potential for future expansion of U.S. agricultural exports. They are also the most frequent users of barter-type trade arrangements that avoid or reduce the use of convertible "hard" currencies—those currencies that are used in international trade, such as the U.S. dollar.

Many of these nations face significant constraints in buying U.S. agricultural products because of their limited ability to earn hard currencies. Several already carry huge debts, and they are reluctant to increase their imports without guarantees of corresponding opportunities to sell their products.

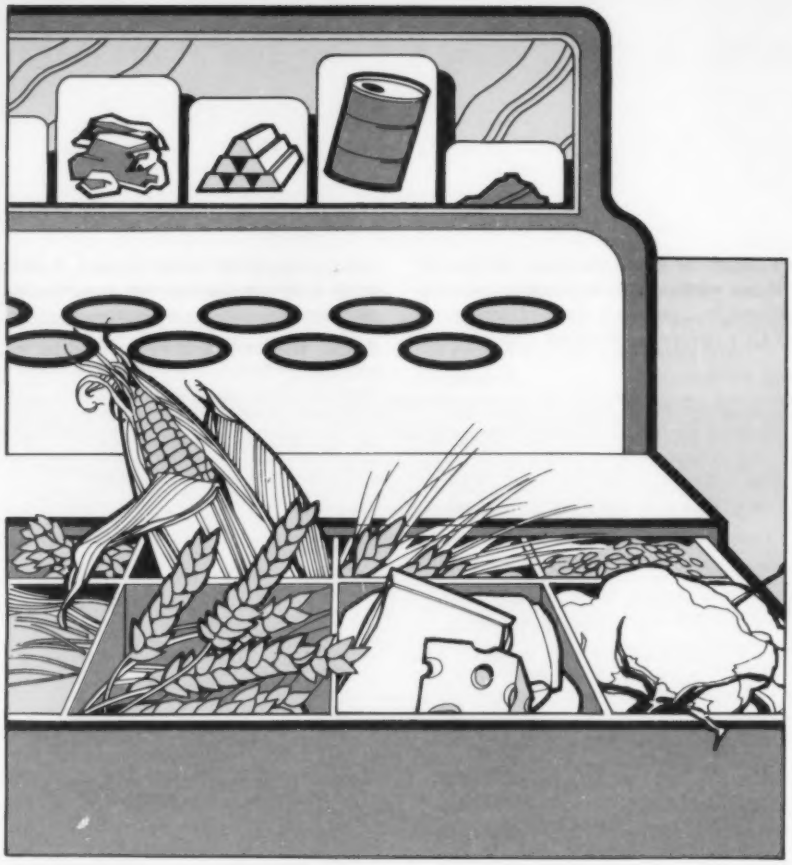
Barter is an appealing alternative. It avoids or reduces hard currency requirements at the same time that it ties imports of a needed commodity with exports of another commodity that's produced in excess of domestic needs.

Romania recently declared that half of its trade must be under counter-trade auspices. The reason: Romania's state trading firms have a chronic shortage of hard currency.

Barter has other attractions as well. It can maintain a nation's trade when world demand for a major export commodity declines. Several developing countries are heavily dependent on one or two primary export products. Similarly, barter can guarantee access to needed imports, such as oil, for a specified time period, even though demand and market prices may fluctuate.

Barter can also be used to develop new markets for nontraditional items, or to help a nation diversify its trading partners. Another motive may be to lend political support to a friendly government or to promote stronger political ties.

The longest running barter agreement still active is between China and Sri Lanka. It goes back to 1952 and involves the exchange of rubber for rice. China provides rice, often at lower than



A number of countries might be interested in bartering strategic materials for U.S. agricultural surpluses.

market value, in exchange for rubber valued at a premium price.

The oil-exporting developing nations seem especially interested in tying their trade to barter-type exchanges as they try to maintain exports in recession-weakened markets and reduce their balance-of-payments deficits. Iran, Venezuela, Algeria, Iraq, Indonesia, and Brazil have all been involved in barter agreements involving oil for agricultural commodities.

The USSR and China also barter oil and petroleum products to such nations as Vietnam, India, and Thailand. Other recently negotiated barter pacts include Colombia's agreement to exchange coffee for Soviet buses, and South Africa's exchange of corn for Soviet fertilizer.

Several Nations Have the Export Products and the Import Needs that Could Form the Basis for U.S. Counter-Trade Agreements

Some potential barter partners[1]	Export products that match U.S. stockpile needs	Import products that match CCC stocks held by U.S.
Brazil	Columbium concentrate, manganese	Wheat, nonfat dry milk, corn
Thailand	Columbium concentrate, tantalum, tin	Wheat, nonfat dry milk
Peru	Copper, lead, zinc	Cotton, wheat, grain sorghum, corn, nonfat dry milk
Philippines	Chromium	Corn, wheat
Venezuela	Oil	Wheat, corn, grain sorghum, cheese
Nigeria	Oil	Wheat, corn
Indonesia	Rubber, tin, oil	Wheat, nonfat dry milk, corn, cheese
Mexico	Fluorspar (acid grade), antimony, oil	Cotton, grain sorghum, corn, wheat, barley, nonfat dry milk
China	Titanium sponge, antimony	Corn, wheat
USSR	Platinum, titanium sponge, chromium	Wheat, barley, corn

[1]This is a partial listing of potential barter partners, based on their demand for farm products currently in CCC inventories, their production of export materials needed for U.S. strategic mineral or petroleum stockpiles, and their financial constraints that limit commercial trade with the United States.

Potential Barter Partners

If the United States decided to barter agricultural commodities for materials to help fill U.S. strategic stockpiles, a number of countries would qualify as potential partners. They include Brazil, Thailand, Peru, the Philippines, Morocco, Turkey, India, Nigeria, China, and even the USSR.

These nations could offer a variety of strategic minerals for the National Defense Stockpile Inventory. The minerals include columbium concentrates, bauxite, copper, cobalt, lead, manganese, rubber, zinc, platinum, tantalum, and antimony.

The minerals are used to produce high-grade steel, aluminum, bronze and brass alloys, and other materials necessary for jet engines, cartridges, castings, electrical wiring, magnets, fuses, oil drilling bits, fireproofing systems, and many other critical products. Inventories are being stockpiled for key U.S.

industries and defense in case a national emergency, a war, or a major disruption in trade cuts off our access to foreign supplies.

In return for these minerals, the United States might offer commodities currently held in Commodity Credit Corporation (CCC) reserves, such as corn, wheat, cotton, nonfat dry milk, cheese, butter, grain sorghum, barley, rye, sugarbeets, and honey.

Brazil, Thailand, and Peru could be in-

A Look at the Past

The United States operated a barter program from 1950 to 1973. It was established to reduce inventories of surplus agricultural commodities owned by the CCC.

Barter trades were negotiated only in cases where the risks of displacing commercial sales were judged to be minimal. Contracts were signed between the CCC and private U.S. firms, rather than with foreign countries.

Until 1962, most exchanges were confined to CCC-owned commodities in return for strategic materials. The bulk of U.S. agricultural exports under the agreements went to Europe and Japan. By 1962, however, changes in defense planning had reduced strategic stockpile goals, and many goals had already been met. Also, CCC inventories were greatly reduced.

Starting in 1963, the emphasis shifted to using barter to procure foreign-produced supplies and services for "offshore" purposes, such as overseas U.S. military bases and economic development projects.

Privately held agricultural stocks were increasingly used in place of CCC stocks. Developing countries such as Korea, Taiwan, Malaysia, the Philippines, and Hong Kong became major barter partners.

During the operation of the barter program, 123 countries received U.S. farm products, and the value of U.S. agricultural exports under the program totaled more than 6½ billion dollars. Barter exports reached a high of more than a billion dollars in 1973, but the program was suspended in that year because CCC stocks were largely depleted and the supply of private stocks no longer seemed to justify the need for a barter program.

The Value of U.S. Agricultural Exports Under the Old CCC Barter Program Reached More Than a Billion Dollars in 1973[1]

Fiscal year	Value of U.S. agricultural exports: Under strategic contracts	Under offshore contracts	Under all CCC barter contracts
		dollars	
1950	7,782,000	0	7,782,000
1951	8,524,000	0	8,524,000
1952	42,818,000	0	42,818,000
1953	14,113,000	0	14,113,000
1954	34,398,000	0	34,398,000
1955	124,605,000	0	124,605,000
1956	298,387,000	0	298,387,000
1957	400,486,000	0	400,486,000
1958	99,830,000	0	99,830,000
1959	132,255,000	0	132,255,000
1960	149,190,000	0	149,190,000
1961	143,951,000	0	143,951,000
1962	198,369,000	0	198,369,000
1963	47,447,000	12,641,000	60,088,000
1964	43,458,000	68,715,000	112,173,000
1965	31,926,000	98,222,000	130,148,000
1966	32,074,000	196,745,000	228,819,000
1967	22,477,000	273,170,000	295,647,000
1968	6,339,000	295,948,000	302,287,000
1969	1,405,000	267,788,000	269,193,000
1970	0	467,836,000	467,836,000
1971	0	870,050,000	870,050,000
1972	0	875,894,000	875,894,000
1973	0	1,088,291,000	1,088,291,000
1974	0	293,758,000	293,758,000
1975	0	4,692,000	4,692,000

[1] Program suspended June 30, 1973. Activity after that date reflects phasing out of open contracts.

terested in a barter arrangement because they are markets for U.S. dairy products, cotton, and other commodities held in CCC stocks. Peru, for example, might be receptive to a barter involving U.S. grains and dairy products because it has suffered from recent sharp price declines for its copper and other export products.

In addition to scarce minerals, the United States might consider bartering for oil to help fill the strategic petroleum reserve. Top candidates for such agreements probably include Nigeria, Indonesia, Mexico, and Venezuela. All these countries are cutting back on their imports because their foreign exchange earnings have dropped along with sluggish oil demand and weak oil prices.

Nigeria has sharply reduced food imports, Mexico is battling a fiscal crisis, and both Indonesia and Venezuela have recently adopted internal policies that suggest serious concern about export earnings. Most oil exporting nations are interested in food and feed grains—commodities the United States now has in abundance.

The reasons for considering the barter option are evident enough. Large U.S. supplies of agricultural commodities stand face to face with weak demand resulting from the worldwide recession. Barter was used extensively by the United States and other nations to help maintain trade during the global depression of the 1930's.

Those supporting a revived barter program contend that it could help reduce the costs of CCC support programs by reducing the stocks of grain eligible for benefits, provide some relief to the U.S. balance of payments by saving oil dollars, and maybe lend some strength to producer prices.

Obstacles to Barter

Despite barter's appeal, however, it also has several shortcomings. Barter pacts present more obstacles than money-for-goods transactions because countertrade requires what economists call "a double coincidence of wants." In other words, the seller cannot simply find a buyer who wants the seller's product; the buyer must also have a product to trade that the seller wants.

Legislative and budgetary restrictions may affect our ability to reach barter agreements.

In money transactions, the sale of U.S. grain, for example, does not bind the United States to spend those earnings to buy a specific product from a specific country in the same way that barter links exports and imports together.

Because sales and purchases are tied together, barter also requires elaborate negotiations to work out prices as well as quantities to be traded. Unlike an ordinary commercial sale where a commodity may be valued at an international market price and purchased by anyone with the money to pay for it, barter agreements frequently involve discounts or premiums.

And, though negotiations are usually complex, they must be timely, too. World market prices change rapidly, so lengthy talks may penalize one of the parties at the expense of the other. Likewise, a country's refusal to accept poor-quality shipments may jeopardize a needed market for that country's products.

Barter can be even further complicated by bureaucratic rivalries in many foreign governments. Unlike a cash sale or purchase, a barter arrangement may require negotiations with two or more ministries of another government. In cases where those ministries compete for power and budgets, one ministry may be reluctant to release control over its supplies—oil supplies, for instance—to allow another ministry to receive U.S. goods and enhance its prestige.

Even in the United States, barter agreements involving different commodities, such as farm products for oil, require the coordination of different U.S. government agencies. This coordination is often not a simple matter, because each agency may face various legislative and budgetary limits on its ability to conduct such agreements.

Case in point: The 1981 farm bill requires that CCC stocks of wheat and corn be marketed at levels that are well above current prices. At the same time, the U.S. Department of Energy may not be able to offer compensating premiums in its valuation of oil offered by a foreign supplier due to its legislative mandate to pay reasonable prices or solicit competitive bids.

One possible way around these restrictions would be an arrangement to barter U.S. grains from private, free market stocks on a case-by-case basis. USDA could provide market information and monitor sales by private traders.

Among other commodities, cotton cannot be sold at less than 115 percent of the loan rate. Dairy products, rice, grain sorghum, barley, rye, and honey can be exported, but not at less than market prices. This could become an obstacle if a potential barter partner demanded a discount.

Other U.S. restrictions also apply. Barter agreements cannot replace cash sales, disrupt market prices, or interfere with long-term commercial markets.

These restrictions are designed to safeguard commercial sales and producer prices, but they can also constitute significant barriers to barter trade. □

[Written by foreign affairs officer Donna Vogt based on research by Vogt, Cathy Jabara, and Dee Linse of the International Economics Division, Economic Research Service.]

Cotton's Westward Shift

As cotton farming shifted westward from its traditional "Deep South" roots during the 1970's, the structure of cotton production underwent several major changes.

A study of the latest agricultural census data by USDA economist Duane Hacklander of the Economic Research Service identified these changes from 1974 to 1978:

- The number of farms harvesting cotton declined about 40 percent, from around 90,000 to slightly less than 54,000. Meanwhile, the total acreage of cotton harvested increased slightly. The result: Cotton harvested per farm expanded by 100 acres, from 137 to 237 acres on average.
- The Southwest became the nation's leading cotton-producing region, with 27,766 farms harvesting cotton.
- Over one-fourth of the farms harvesting cotton had more than $100,000 in sales of agricultural products in 1978.

The dramatic shift to fewer but larger farms was proportionately far greater for farms harvesting cotton than for all U.S. farms in the 1970's.

Several major factors are behind this trend, Hacklander asserts. Competition from synthetic fibers and from foreign cotton producers has stunted the growth of the domestic cotton industry in recent years.

The health of the industry is now highly dependent on exports, which are subject to large, year-to-year variations. Larger operators may be better able to absorb the impact when export demand fluctuates downward.

Overall, the cotton industry shifted from labor-intensive production to use of large machinery which operates more efficiently on huge, unbroken tracts. Smaller cotton farmers found themselves less able to compete with larger operators. Many smaller operators rely largely on off-farm income, and a number apparently dropped out of cotton farming when the economic incentive faded.

Since farmers in the Southeast tend to be close to large employment centers, this trend was accelerated, Hacklander suggests. Southeastern producers who stayed in farming began switching from cotton to soybeans, corn, beef, and tree farming because these products yielded higher net profits or were more compatible with off-farm employment.

Westward Migration

Related to the fewer-but-larger trend is the migration of the industry to the Southwest and West, where farms tend to be much larger. The average cotton acreage per farm harvesting cotton in Texas—277 acres—was more than twice as large as Georgia's average of 128 acres in 1978.

In 1974, 50,248 of the nation's 89,536 farms harvesting cotton were in the Southeast and South Central regions, 32,423 were in the Southwest, and 6,647 were in the West. By 1978, about 52 percent (27,766) of the nation's 53,819 farms harvesting cotton were in the Southwest. The South Central states hosted 15,731 farms, the West had 6,225, and the Southeast had only 4,047.

Texas alone accounted for 43 percent of the farms harvesting cotton and 51 percent of the cotton acres harvested that year.

The westward migration of cotton farming is a matter of dollars, Hacklander says. For one thing, per unit production costs tend to be much lower in the Southwest and West. Last year, cotton production costs per pound (excluding land costs) totaled 92.5 cents in the Southeast, 82.5 cents in the Delta, 69.5 cents in the Southwest, and 67.2 cents in the West.

As with production costs, regional variations occur in cotton prices—for example, High Plains and Rolling Plains areas of Texas produce lower valued, short-staple cotton. Nevertheless, Southwestern producers can generally squeeze more profit out of cotton than could be realized from alternative crops.

Contributing to lower western production costs is the nature of the land. In the Southwest and West, large, unbroken tracts are located on flat or gently rolling terrain which is ideal for efficient use of large machinery. Few economically viable alternative crops can compete with cotton on much of the cotton acreage in these regions.

In the West, most of the cotton land is irrigated, thus lending itself to yields which averaged 1,120 pounds per acre last year—double the yield in the South.

Besides such competitive forces, the westward shift was further accelerated when cotton acreage allotments were terminated in 1977, along with direct government payments based on those allotments. Allotments based on history tended to impede adjustments to economic and technological forces that called for shifts in the location of production.

Despite these physical shifts within the industry, farm families still firmly held the reins of cotton farming. Individuals or families owned 83 percent of all cotton farms in 1978. About 13 percent were partnerships and only 4 percent were corporations—and nine out of ten of the corporations were family held. □

[Based on material provided by economist Duane Hacklander of the National Economics Division, Economic Research Service.]

Women Who Operate Farms

This article, the first of two on farm women and their role in farming, focuses on women farm operators. Next month's article will look at the farm woman's role in a more typical family setting, where the husband is more likely to be designated as primary operator.

Visit 20 farms around the country and the chances are good that one of those farms will be operated by a woman, says researcher Judith Kalbacher of USDA's Economic Research Service.

Kalbacher recently analyzed results of the 1978 Census of Agriculture, the first census to publish statistics on the gender of farm operators.

It shows that women are the sole or principal operators of 128,000 or just over 5 percent of the nation's farms. Kalbacher also found evidence, from other sources, that more women are running farms today than 10 years ago. According to U.S. Department of Labor figures, the number of women working principally as farmers or farm managers doubled from 1970 to 1980.

"As farm operators, women contribute substantially to some types of agricultural production, and their numbers are growing," Kalbacher says.

She adds that the census provides only a partial count of women farmers. Census reporting forms allow just one operator to be named per farm, and it's the husband that's selected by most farm couples even though the wife may share the farmwork and management.

On the other hand, when women are designated as the operators, it typically means that they run the farm alone. They're usually widowed, separated, or single, or their husbands just don't get involved in the operation, Kalbacher says.

Despite the limitations of the reporting procedures, census figures indicate that women operators have a firm foothold in several states. They constitute 13 percent of all farmers in Hawaii, 10 percent of farmers in Florida and South Carolina, and 8 to 9 percent of farmers in several other states.

Geographically, they're best represented in the South and Appalachian region. Women make up more than 5 percent of farmers in every state in these two areas, and the 16 states combined take in more than half of all women farmers in the United States. Texas alone has almost 12,000 female operators, about 10 percent of the U.S. total.

Women farmers are also well represented in most western and northeastern states. In the Corn Belt and North Central area, however, they account for a relatively small share of the operators—only about 3 percent overall.

These figures help explain why only 14 percent of women farmers operate cash grain farms, compared with 25 percent of male operators. In Iowa, Nebraska, the Dakotas, and Minnesota, fewer than 3 percent of farmers are female.

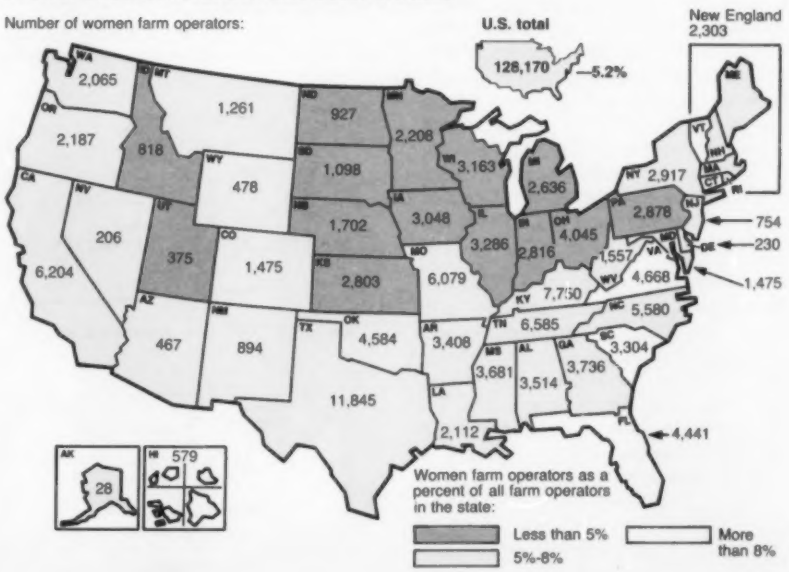
Many women operators have small farms, whether measured by acreage or sales. Their units average about 285 acres, while farms run by men average 423 acres. Four out of ten female-operated farms are smaller than 50 acres; just 8 percent are larger than 500 acres.

A relatively large number of women farmers are older widows, which partly explains the smaller farm size, Kalbacher says. As farmers age, they tend to scale back their operations, regardless of sex. One out of three female operators is 65 or older, while only around one in six male operators fits into this age group.

Kalbacher also reports that women farmers are more common among blacks and other minorities than among white farmers.□

[*Based on material provided by Judith Kalbacher, a geographer with the Economic Development Division, ERS.*]

Women Account for at least 5% of All Farm Operators In Most Southern, Western, and Eastern States



The European Community: Opportunities and Obstacles

The European Community presents a mix of opportunities and obstacles for U.S. exports. However, as the scales have tipped toward fewer opportunities and greater obstacles, strains in U.S.-EC trade relations have intensified. In the balance may be billions of dollars in U.S. agricultural exports.

The 10 EC member nations are often viewed as a single body because of their common agricultural policies. As such, they make up the largest overseas market for U.S. farm products, accounting for around 20 percent of the total value of U.S. agricultural exports. U.S. exports to the EC (including Greece) were worth $9.5 billion in fiscal 1980, and roughly $9 billion in each of the last two recession-depressed trade years.

Behind the impressive sales figures are 280 million EC consumers whose average purchasing power approaches that of U.S. consumers. Further supporting U.S.-EC trade are close commercial ties, efficient shipping channels, modern port facilities, and a well-oiled banking system that links the two markets.

Yet partially offsetting these stimulants to trade is the EC's array of tariffs, import levies, and other barriers to protect its own producers. Import levies ensure that the price of an import from outside the EC is higher than the price of a corresponding item produced within the Community. These charges make it difficult, if not impossible, for many U.S. commodities to compete in the EC market.

In addition, the EC's internal system of farm price guarantees, subsidies, and other benefits for producers and processors has spurred agricultural output. Protected from outside competition and prodded by big price supports, EC producers now meet or exceed many of the EC's domestic needs for food and livestock products.

As a result, the EC has become one of our slowest growing farm markets. In 1980, for the first time in history, Europe fell behind Asia in purchases of U.S. farm products, and the spread has since widened.

The EC's expansion adds to the difficulties faced by U.S. exporters. Greece joined the Community in 1981, and Spain and Portugal are scheduled to enter in the mid-1980's. Membership in the EC will give them additional trade advantages. These nations, Spain in particular, are large producers of several items important in the U.S. agricultural export picture, including almonds, lemons, raisins, preserved fruit, and fresh and frozen vegetables.

With all these obstacles, how are U.S. agricultural exports faring in the EC market? The export record varies considerably, depending on the commodity in question. Here's an update and a look at prospects for major commodity groups.

Soybeans: A Strong Market

EC demand for soybeans developed rapidly during the 1970's to meet the needs of an expanding commercial livestock sector. U.S. soybean exports to the EC rose from 5.5 million tons in 1975 to an estimated 9.8 million this year.

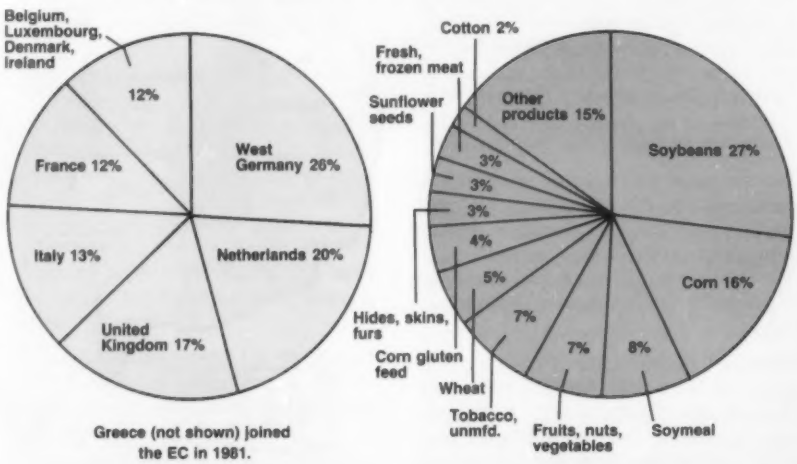
High-protein feed based on soymeal is used for intensive poultry, hog, and dairy production. In recent years, EC crushers more than doubled their meal output, relying largely on U.S. soybeans which account for about four-fifths of EC soybean imports.

Since the demand for soymeal itself is not fully met by EC crushers, processed soymeal is also imported, mainly from the United States and Brazil. Although Brazil usually captures the larger share of the market, the United States will continue to rank as one of the top two suppliers.

The EC has been trying, with little success, to reduce its dependence on im-

West Germany Is Our Biggest EC Customer; Soybeans and Corn Are Our Biggest Sellers

Shares of total value of EC agricultural imports from the United States:



ports of high-protein feedstuffs. Soybean cultivation is highly subsidized, but yields have been low, and annual production is only about 18,000 tons. Also, the EC is offering incentives for the production of pulses (broad beans and field peas), rapeseed, and sunflower seed. Yet, so far, none of these crops has been able to supply more than a small proportion of the EC's protein feed needs.

The EC has considered imposing taxes or other barriers on soybean and meal imports, but these proposals have not been adopted. The United States has strongly objected that any such barrier would violate the EC's international trade agreements, which assure free entry to all oilseeds and oilmeals. A proposed EC vegetable oil tax seriously concerns the United States because it would cut demand for soybeans and other oilseeds.

Besides soybeans, the United States is also the leading supplier of sunflower seeds—bought mainly by West German crushers to produce oil for margarine—and is usually the primary source of peanuts imported by the EC.

Corn Outlook Poor

Corn, second only to soybeans among the top U.S. exports to the EC, faces a declining or stagnant market. Since 1975, U.S. corn exports to the EC have fallen from 11.8 million tons to an estimated 10 million this year.

Supports, Surpluses, and Subsidies

Under the protective umbrella of the Common Agricultural Policy, the EC has a history of high farm prices. These high prices have led to surplus production of many agricultural goods, including dairy products, sugar, soft wheat, barley, beef and veal, poultry, and wine.

The general policy of the EC is to dispose of these surpluses in world markets, using whatever subsidy is necessary to give them a competitive price advantage.

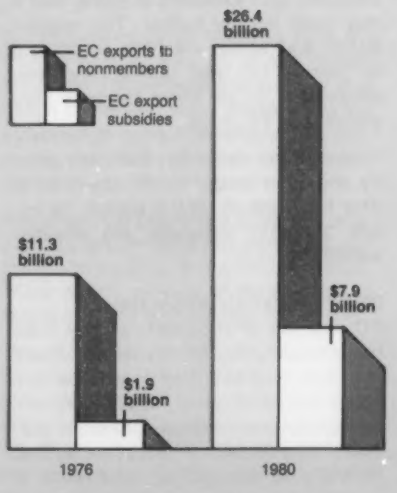
Here are some facts behind the EC's internal pricing, production, export, and subsidy policies, as assembled by USDA economists of the Western Europe branch, International Economics Division, Economic Research Service.

• EC internal prices have generally been well above world market prices. For instance, the price set for soft wheat in 1980/81 was $362 per metric ton, while the world price averaged $195. The EC price for beef was set at $2,235 per ton, compared with a world price of $1,212.

• High price supports and no production controls have resulted in a sharp increase in farm output. Over the late 1970's, sugar production surged to 150 percent of domestic needs. Meat production rose to 105 percent of domestic use, making the EC the world's major meat exporter as surplus production was pushed onto world markets. In the same period, EC dairy surpluses increased significantly.

• By insulating internal EC trade and heavily subsidizing exports to nonmembers, the EC has had considerable success in boosting its agricultural exports. Behind a protective wall of tariff and nontariff barriers, intra-EC farm exports (exports of member nations to other members) rose to $48 billion in 1980, up from $26 billion in 1976.

EC Agricultural Exports and Export Subsidies



• Meanwhile, exports to non-EC nations became an increasingly important outlet for disposing of surplus production. With the help of subsidies, which compensate for differences between EC prices and world market prices, exports to nonmembers climbed from $11 billion to $26 billion between 1976 and 1980—an average growth rate of 24 percent a year.

• In the same period, EC subsidies for exports to nonmembers quadrupled, approaching $8 billion by 1980. This means that EC export subsidies amounted to about $3 for every $10 in agricultural product sales to non-EC markets.

• Export subsidies for wheat averaged $66 per metric ton in early 1982, about 30 percent of the EC's internal price. Dairy products and barley (which competes with U.S. corn) are heavily subsidized. Subsidized poultry meat exports have damaged U.S. exports to the Middle East.

The EC is increasingly formulating policies which favor greater self-sufficiency and expansion of exports. These policies are likely to make the EC an even tougher competitor in world agricultural markets.

Who Benefits from EC Farm Policies?

• EC farmers benefit. They receive high and stable prices for EC supported commodities, regardless of world market prices. They have priority access to EC markets, and their exports to non-EC markets are heavily subsidized.

• EC governments also benefit in some important ways. Although they often subsidize inefficient production by world market standards, they have increased self-sufficiency in food and feed production. Nevertheless, the EC still runs large agricultural trade deficits. The EC came out an estimated $6.5 billion behind in fiscal 1982 farm trade with the United States, and its overall deficit in total agricultural trade is much larger.

• Many other nations also benefit, including those that are given preferential access to EC markets, and those that buy EC farm products at cut-rate prices.

Who Pays for EC Policies?

• The direct burden falls on a rapidly rising EC budget, causing increased concern in the Community. Agricultural expenditures rose from 4.7 billion European currency units (roughly $5.8 billion U.S.) in 1975 to an estimated 12.2 billion ($12.4 billion) this year. EC taxpayers are shouldering an increasingly large share of these costs, as revenue from import levies fails to keep up with the EC's farm spending.

• EC consumers pay an even larger cost indirectly because high internal farm prices boost retail food prices.

• The burden is also shared by the United States and other trading countries, as growth in their exports to the EC is slowed by EC import levies, taxes, and processing subsidies. At the same time, EC export subsidies enable EC exporters to undersell competing suppliers on world markets.

While high EC farm price supports stimulate domestic output of grains for feed, EC import levies ensure that the price of imported corn is always higher than the price of the home-grown product.

France is Europe's foremost feed grains producer, and it has first claim on EC purchases because of the built-in price advantage. U.S. corn remains a major EC import only because—unlike barley and soft wheat—local producers are not able to satisfy demand. In fact, though the United States plays the role of residual supplier, we usually get a larger share of the EC corn market than France, our principal rival.

French output appears to have leveled off for now, so the United States may remain the largest supplier for the next few years. However, total EC corn consumption isn't expected to grow, and it may even decline further. The reason: Barley and wheat are both substituted for corn in EC feed rations, and their prices tend to be lower because they are surplus EC crops.

Corn remains necessary for some poultry and other feeds, but its use is dropping for feeds in which wheat, barley, and nongrain feedstuffs are cheaper substitutes.

Other Feedstuffs Score Gains

EC imports of U.S. corn gluten feed (used mainly for EC dairy cattle and hogs) more than tripled during the last half of the 1970's, and the U.S. share of the market soared to well over 80 percent. The U.S. corn refining (wet milling) industry combined high efficiency in manufacturing with active export promotion to boost sales.

Corn gluten feed enters the EC free of levies or tariffs in accord with the EC's international trade agreements, so it's very competitive as a nutrient in many formulas. However, future sales growth could be jeopardized by an EC proposal to place quantitative limits on corn gluten feed imports.

U.S. citrus pulp, a carbohydrate feedstuff used in cattle rations, also achieved big sales gains during the late 1970's. The United States supplies more than half of the EC's imports, with Brazil providing most of the remainder. Brazil may narrow the U.S. lead, but the United States should retain its position as principal supplier during the next few years at least.

Hard Wheat, Rice Sales Stable

Although the EC is flooded with soft wheat surpluses, a steady market remains for U.S. and Canadian hard red wheat. The North American hard wheats are still needed to meet technical milling requirements and to satisfy consumer preferences in many EC countries.

Rice, like wheat, has EC price supports and variable levies, yet it too is a U.S. export earner. Unable to meet all their needs with EC rice, rice mills import husked rice for further processing. The United States is the principal outside supplier.

Problems for Processed Foods

The EC is a very tough customer when it comes to introducing or expanding U.S. exports of many processed agricultural products, as well as unprocessed commodities with high unit values. More than half of EC members' import needs for processed and high value products (HVP's) are met by trade within the Community. The rest comes from a variety of countries, with less than 5 percent from the United States.

Variable levies and other import charges render a large portion of Ameri-

can HVP's uncompetitive on the EC market. The HVP's hit hardest include poultry, beef, pork, dairy products, eggs, milling industry products (except corn gluten feed), and bakery goods. Among meats, the exceptions are edible offals and horsemeat, which are big U.S. sellers on the EC market.

Trade in fruits, vegetables, and nuts may offer greater opportunities for U.S. exporters, especially for novel and high-quality varieties. But the competition is fierce, and the EC's own producers have the advantage because their goods are free from import duties and levies. In addition, most Mediterranean producers outside the EC and many developing countries receive preferential tariff treatment. Spanish and Israeli oranges, Turkish raisins, Spanish lemons and almonds, and many other items are given a competitive price advantage over U.S. products.

The most rapidly growing American HVP exports are edible nuts. Sales more than tripled during the late 1970's. Almonds, like all edible nuts, are free of variable levies, but they are charged a 7-percent tariff. The United States is the major supplier, but we will soon face increased competition from Spain because its almonds will have duty-free access when it joins the EC.

The small U.S. share of the EC fresh citrus fruit market is due partly to the high tariff faced by U.S. oranges during October-April, when Spain and other Mediterranean suppliers receive large tariff preferences. Lemons and grapefruit—subject to lower tariffs—are somewhat more successful.

On the EC dried fruit market, the United States is the leading supplier of prunes because the Community's own producers, France and Italy, can't meet demand. However, U.S. prunes still face a 12-percent tariff. U.S. raisin sales may continue to decline, partly because EC processors are eligible for subsidies if they use EC-grown grapes.

Dried beans account for three-fourths of EC imports of dried legumes from the United States. Half go to the United Kingdom for further processing into baked beans and soup. Preferences are extended to certain Mediterranean suppliers, but tariffs on U.S. dried beans are relatively low.

Prepared and preserved fruits and vegetables are among the most difficult HVP's to export to the EC. The U.S. share of EC imports of these items is averaging only about 3 percent.

The EC is still the largest importer of unmanufactured U.S. tobacco, but the extension of tariff preferences to most major U.S. competitors exerts a downward push on U.S. sales. The U.S. market share may continue to drop during the next 5 years, possibly falling below 20 percent. U.S. cigarettes and other manufactured tobacco products are virtually excluded from the EC by very high tariffs.

Overall, the EC is a challenging market for some U.S. exports, but an unreachable one for others. In a free trade atmosphere, a product's success is determined by such factors as quality, availability, price competitiveness, and product differentiation. However, EC import policies frequently cast the United States in the trade role of "least favored nation," and these policies must be part of any realistic assessment of a U.S. product's market potential.□

[Written by EC trade specialist Harold A. McNitt, an economist with the International Economics Division, ERS.]

Raising Objections

It's no secret that the United States is raising serious objections to EC agricultural policies.

The principal U.S. concerns: continuing threats of increased protection against U.S. products entering the EC, and the EC's increasingly aggressive export policy for its own surplus production, which is stimulated by high levels of protection and then disposed of through export subsidies.

The United States has five subsidy cases pending before committees of the General Agreement on Tariffs and Trade (GATT), a pact to increase international trade by reducing tariff and other barriers. It was negotiated in 1947 among 23 countries, including the United States, and has since been enlarged to include most of the world's trading countries.

The U.S. position is that EC subsidies and tariff preferences to other suppliers constitute unfair competition and violate the GATT agreement. The right to provide subsidies is not in question, but rather their use to expand the EC market share by undercutting U.S. sales to non-EC countries.

U.S. policymakers have suggested that further actions may be taken under existing law, including export subsidies for U.S. producers to counter EC export subsidies. Other exporting countries have also stepped up pressure on EC authorities to modify tariff and subsidy policies.

Although strains in U.S.-EC trade relations have intensified in recent months, so have discussions to resolve the differences. Formal consultations between U.S. and EC representatives were convened in October over two issues: EC subsidies for poultry exports to Mideast markets, and possible EC quotas or duties on U.S. corn gluten feed.

Of course, U.S.-EC trade differences aren't confined to agricultural products, and they involve EC complaints about U.S. policies as well, including the embargo on U.S. products for the Soviet-European pipeline.

AGRICULTURAL ROUNDUP

Outlook Conference Preview

Coming up: USDA's 59th annual Agricultural Outlook Conference, November 29 through December 1 in Washington, D.C.

Outlook '83 speakers will discuss U.S. and world economic conditions, trade policies and prospects, agribusiness conditions, credit and finance, marketing and risk, and other key topics in agriculture.

A special trade session will be devoted to centrally planned countries, while commodity outlook sessions will cover grains, oilseeds, fruits and vegetables, tobacco, dairy, meats, sweeteners, cotton, and forest products. Other presentations will focus on research in home economics and nutrition, prospects for food prices and consumption, and trends in transportation, regulatory policy, conservation, and rural development.

Conference registration is from 9 a.m. to 12:30 p.m. Monday, November 29, in the patio of USDA's Administration Building. Sessions begin Monday afternoon and end Wednesday afternoon, December 1. There is no charge to attend.

For additional details, a schedule, and information on how to order the conference proceedings, call Sally Michael at (202) 447-3050, or write to: Conference Director, World Agricultural Outlook Board, Room 5143-South, USDA, Washington, D.C. 20250.

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Here's the schedule from mid-November through December.

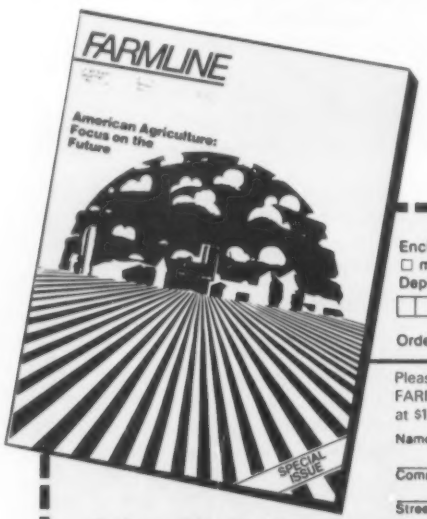
November

10,11 Crop Production
12,13,14 World Supply and Demand
15 Poultry Exports
16 Cattle on Feed
17 Wheat Situation
18 Farm News Special
19,20,21 Livestock and Poultry
22 Cattle Report
23 Cotton Situation
24,25 Eggs, Chickens, Turkeys
26,27,28 Farm News Special
29 Export Situation
30 Agricultural Prices

December

1 Outlook Conference
2 Outlook Conference
3,4,5 Outlook Conference
6 Farm News Special
7 Sugar Situation
8 Agricultural Outlook
9 Farm News Special
10,11,12 Crop Production
13 World Supply and Demand
14 Cattle on Feed
15 World Agriculture
16 Dairy Situation
17,18,19 Agricultural Finance
20 Farm News Special
21 Eggs, Chickens, Turkeys
22 Small Grains
23,24,25,26 Hogs and Pigs
27 Farm News Special
28 Farm Numbers
29 Farm News Special
30,31 Agricultural Prices

Features are subject to change.



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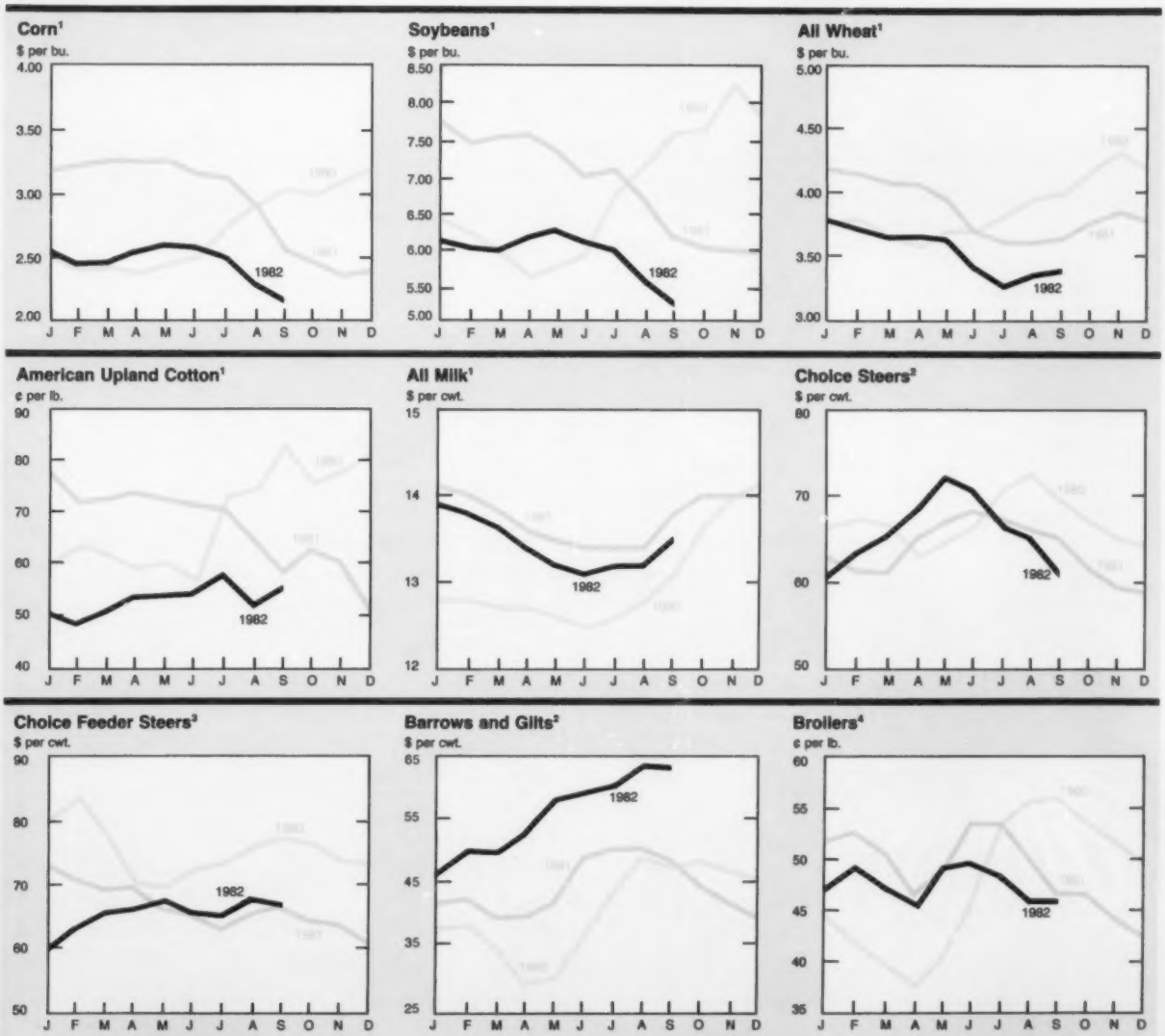
FARMLINE TRENDS

Monthly Price Monitor

Mid-September crop prices remained depressed. Corn and soybean prices declined from low August levels, while wheat and cotton made small gains. Of the four crops, only cotton was selling above its January price, and all were selling below year-ago levels. In livestock, Choice steer prices fell for the fourth month in a row. Feeder steers also slipped a bit, but they remained slightly above year-earlier prices. Barrow and gilt prices continued very strong, holding above the $63 per cwt. mark—the highest in years. Broiler prices were steady.



[1]U.S. average prices received by farmers. Prices for the latest month are mid-month estimates. [2]Omaha. [3]600-700 lbs., Kansas City. [4]Wholesale, New York.

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